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Wanted—A Foreign Trade Policy

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Washington, D. C.

AMERICA faces a new era in her national development; her future holds immeasurable potentialities. At no time in the life of the nation has the outlook been brighter. Peace is at hand. Prosperity and happiness, on a plane far greater than the world has ever before known, may be hers if she will but grasp and develop them. The degree of our future success will be measured by the degree of our vision and judgment. These blessings are not laid before us to take or leave in a casual manner. They are dependent upon the faithful fulfilment of well-defined duties. The complexities of the problems before us are great, but they are not insoluble. Let us view the situation from the standpoint of facts and experience, rather than through the spectacles of those fascinating optimists who assume that prospects and possession are synonymous. If we follow these gentlemen we may forget that while America stands inert and undecided every other great nation is preparing the quickest and surest method of snatching the advantage from her.

The world war has come to an end, but war for world dominion has been started on the ashes of the old system. Let us bear this in mind and let us remember that a well-defined national policy is as essential to success in the contest for national supremacy as a wise military policy was in the war that is happily ended. Failure to prepare for the new contest will be little less reprehensible than was our failure to prepare for the world war. The problems that are presented to us have no counterpart in Europe, Asia, Africa or South America. We cannot follow the example of any other nation. If we would succeed, we must lead. Our economic position is as distinct fundamentally as is our country's position geographically. The war has given us an unprecedented handicap over every other nation in the world. Our foreign commerce has jumped by leaps and bounds until we have almost monopolized the world trade in many lines. It came to us through the temporary weakness of our competitors, and not through our own

efforts alone. It is unreasonable to assume that we shall hold all of the markets we now control.

Irrespective of the renewed efforts of our competitors, now released from the inexorable demands of war, we may command all the foreign markets that we require and are capable of developing along healthy lines, if we will but capitalize our inherent potentials by wise fostering and conservation. No matter what efforts our competitors may make we can meet them and beat them if we will but protect our incomparable home market while developing on sound principles foreign markets which present natural and permanent outlets for our surplus products.

I shall proceed upon what I deem to be an axiom. Our ideal foreign policy is one that would give America the greatest degree of commercial independence and compel the greatest dependence from the rest of the world. In other words, as a great producing nation we should develop our foreign trade as an incident to a well-defined policy of strengthening our home markets, by stabilizing our financial mechanism, conserving our natural resources and raising our labor to the highest possible state. These are the fundamentals of a permanently successful policy—one that will give us an unassailable commercial position.

In order to realize fully our tremendous potential power, as well as the dangers which are ahead of us, it is necessary to review the economic history of this country during the last fifteen years.

America is the only country in the world which possesses, and at the same time has developed to the point of availability, the greater part of the raw materials essential to her industries. This is the cornerstone of our great industrial structure; the basis of our economic independence. It must be protected. There must be no internationalism in our economic policy! According to the director of the United States Geological Survey, our country contributed to the world's total in 1913 more than 64 per cent of petroleum; 55 per cent of copper; 43 per cent of phosphate; 42 per cent of sulphur; 38 per cent of coal; 37 per cent of zinc; 35 per cent of iron; 34 per cent of lead; 30 per cent of silver; 19 per cent of gold and 20 per cent of salt. We have timber in abundance and an adequate supply of agricultural products to make us in a great measure independent. With respect to nickel, platinum, tin and a few other minerals, there is not much likeli-

hood of our country being self-supporting. We are deficient in potash and certain other minerals essential to our industries, but many of them can be supplied by a policy fostering their development. Such a policy may, in some instances, be well justified apart from economic considerations in view of the possible recurrence of conditions similar to those that existed during the war.

In the ten-year period, beginning in 1904, the export value of American goods was \$18,692,400,442, against an import value of \$13,826,293,032, showing a surplus in our favor of \$4,866,107,410, or approximately \$500,000,000 per annum. But from this favorable trade balance, between \$400,000,000 and \$500,000,000 must be deducted yearly on account of the so-called "invisible exports," the interest and dividends paid by us on \$5,000,000,000 of loans and securities held by European investors; money spent by Americans abroad, remittances made by immigrants and payment by American manufacturers and merchants for freight shipped in foreign bottoms.

During this period we were compelled either to provide a favorable trade balance to the extent of approximately \$500,000,000 a year to off-set the invisible exports, or to sell additional American securities to foreign investors. Payment in gold would have soon depleted our gold reserve. The financial condition of this country at the outbreak of the war was serious, owing to the fact that under the present tariff the value of the imports actually exceeded that of the exports. Fortunately, the effect of the war was to create what was tantamount to a protective tariff by reason of the incident restriction of exports to this country from the belligerent nations, thus averting a great national calamity, financial and industrial.

It is estimated that, prior to the war, upwards of 90 per cent of the products of our national industries were absorbed by our own market, and amounted to more than twice the total export trade of the world. It is not generally known that New York City alone had, before the war, a yearly output of two and one-quarter billions of dollars of manufactures, approximately equal to the entire export trade of either Great Britain or Germany and nearly three times the value of the total imports into South America from all sources. From these considerations, the con-

clusion would seem irresistible that the keynote of our industrial policy should be to preserve unimpaired this incomparable home market. Shall we dissipate this tremendous market, or shall we maintain it by the protection that can be accomplished through tariff legislation wisely administered? This is inherently an economic—not a political—problem.

It is vital to the industrial peace, social contentment and prosperity of the nation that unemployment of labor be reduced to a minimum. This can be effected in a large measure by the restriction of immigration and by the development of foreign markets to insure uninterrupted operation of our industrial plants. The condition of the labor market in the near future is a subject upon which authorities disagree. Among the factors which will determine this condition are the future position of women in industry and the rate of immigration compared with that of emigration. Undoubtedly, there will be a large exodus of our wage earners to their native lands as soon as conditions admit of their departure, and, in all probability, many of these emigrants will not return to America. But, on the other hand, the higher wages and better living conditions here, coupled with the desire of leaving behind the scene of sad memories, will soon attract a large number to America and perhaps far more than would off-set the loss through emigration.

A law restricting immigration should be of short duration and subject to suspension by a body of officials to whom Congress would delegate the authority. The quality of our immigration from all countries would be improved if the work of debarring undesirables were carried out abroad before their departure, instead of after their arrival here. In other words, the Ellis Islands should be established at the points of emigration. The number admitted should be based upon the record of naturalization among the various races during the decade previous to the war. Preference should be given to those nationalities which have evinced a disposition to become naturalized American citizens. It would be far better to suffer a temporary shortage of labor than to have any considerable oversupply under normal industrial conditions. We can dictate the types and numbers of our future immigrants. Shall we accept hordes of undesirables, or shall we accept the best that apply and in the number required?

After the period of reconstruction in Europe, America cannot depend on European markets to absorb her surplus products. If England permanently adopts and extends the principle of the protective tariff—as she surely will—as a basis of preferential tariffs with her colonies and dependencies, America will be deprived of her most important foreign market. In the fiscal year ended June 30, 1914, nearly 40 per cent of our total exports were to the United Kingdom and Canada. This almost equaled the entire importations into South America from all nations. These comparative figures are instructive. Germany also will lose her best market, for in the year 1913 one-sixth of her entire exports—a large part of which were manufactures—went to England, in addition to her very considerable export trade with the colonies.

There is a tendency in this country to overestimate the disabilities under which the great commercial nations of the world will labor as a result of their war losses. Let us examine the facts. France unquestionably will require most of her strength and capital for some time to come to rebuild her devastated areas. Japan undoubtedly will attempt to make great strides in South and Central America, and in many lines we cannot hope to compete with her underpaid labor. Germany, driven from her old markets under the British flag will regain—and in fact already is attempting to regain—and enlarge her sphere in Latin America. We shall meet her at every turn. Her unscrupulous agents will be found in every market and their activities will bear fruit. While England has paid a tremendous price to carry on the war, it has not all been lost to her. As a result of the war, her industry has been modernized and she is now far better equipped than ever before to compete for world trade.

It is to the so-called “backward nations” of South America, Africa, Asia and to Russia that America must look for her future markets. These countries possess enormous natural resources, as yet undeveloped, and consequently of no present value. Their people lack purchasing-power, and because of the low standards of living there is but little demand for foreign goods. The exploitation of these countries would involve the expenditure of colossal sums of money. Where is the money to come from? Obviously European financial centers can no longer provide capital, and it is to the United States that they must look for financial assistance.

In developing new fields of industrial activity, we shall not only create markets for American products but for the exports of Europe as well. In that way we shall profit by enhancing the value of the European securities which we now hold. Our Allies cannot repay these loans in gold—that would be impossible, even if it were desirable—and to receive payment in their industrial products would seriously affect our own industries. Therefore they must repay us by securities we help them create.

Before the war, England, Germany and France were the great bankers of the world. Indeed, many of our own most important industries were financed by foreign capital. England's investments abroad were estimated, in 1914, at upwards of twenty billions of dollars from which she derived a yearly income of \$1,000,000,000. In Latin America alone England has invested five billions of dollars. Both England and Germany have encouraged the investment of the capital of their nationals abroad in order to control the trade resulting from the industries developed. The investment of capital in the development of a country is the "open sesame" to trade with that country.

In international investments, what the borrowing nation requires is cheap money; what the lending nation demands is good security. Under present conditions, good security is what the so-called "backward nations" find most difficult to furnish. It is not only that all business arrangements may at any time be disrupted by political disturbances, but where a dispute arises between the foreign investor and the local interests, the matter is decided by a biased local court or by executive decree, from either of which the only appeal in practice is to diplomatic intervention. Whichever way the case is finally decided, the course of procedure creates bad feeling on both sides. For this reason, I advocate the creation of a High Court of Equity to hear and determine cases solely in the category to which I have referred.

The authority of such a court would be enormous. Its decisions, published all over the world, would constitute a powerful deterrent to dishonest practice; and its influences would extend over the whole field of international business. For the plaintiff or defendant, as the case might be, would not be called upon to accept the decision of a foreign judge and jury whom he would suspect of bias against him. It is not suggested, of course, that

every dispute should be taken to the High Court of Equity and jurisdiction might be fixed by a minimum sum as the amount to be involved in the suit.

If we wish to induce the investment of American money abroad, our government must change its attitude towards American investors in foreign countries. Heretofore no attempt has been made to distinguish between legitimate undertaking by Americans, founded upon the purchase for cash of land, mining-rights, etc., and those schemes—fortunately few in number—which are based entirely upon concessions extorted without valuable consideration. The view has been that there is something base and sordid in any American business enterprise conducted in a foreign country. The fact is that the opposition to the legitimate investment of American capital abroad usually rests upon the complete ignorance of the circumstances.

Anyone who is familiar with the conditions in Latin America, in Africa, in the West Indies, for example, knows that whatever measure of prosperity and civilization exists among the natives has been developed by the activities of foreign capital in those regions. What may very properly be asked of a man who invests his capital in a so-called "backward country" is: "Are the inhabitants of this country better off or worse off because you have gone among them to do business?" And by the answer to this question any foreign enterprise should be approved or condemned. In modern times there are few instances in which native races have not secured great benefits both moral and material from the establishment among them of foreign enterprises.

The foreigner, acting for his own selfish interest, will do everything he can to maintain law and order and to avert internal warfare. He will build hospitals, import physicians and surgeons, improve the sanitary conditions, develop means of transportation and communication, and encourage local industry. In the actual conduct of his business, he will bring capital to the country, give employment to labor and elevate the standard of living. Through the taxation of his enterprises, the government of the country will increase its revenues and find it easier to borrow money for its own purposes. The foreign investor invariably pays a higher rate of wages than native employers, and his business always stimulates the development of whatever resources the country pos-

sesses. An excellent and typical instance of this is what occurs when American capitalists build a smelter in Mexico. The smelter will depend upon ore mined by native wage labor, but in the surrounding district there will be thousands of acres of metal-bearing ground owned in small patches by the natives. Before the smelter is built this ground is worth nothing whatever to its owners as none of them has the capital with which to erect buildings, to import machinery and to employ mining engineers and metallurgists. But the American smelter will buy at a fair price all the ore any of these men will bring to it, thus turning into money resources which have hitherto been valueless to their possessors. Less direct, but no less beneficial, is the stimulus given by the smelter to small local industries among the natives like farming and cattle-raising. What is true of the Mexican smelter built by foreign capital is true of the West Indian sugar factory, of the Malayan tin mine, of the African gold mine, of the Burmese rice mill, of the Sumatra tobacco plantation—the foreign investor makes his profit, but in doing so he increases the prosperity, the development and advancement of the country. In addition to this he confers a benefit upon his own country, for he establishes a trade connection which may be of great value both as to the import and export of commodities and provides freight for the railways and the merchant marine of his own nation.

It would be manifestly impossible to discuss all the phases of foreign trade policy in a paper of this scope. I have dwelt only on those which I deem to be of major importance. It seems almost unnecessary to remind even the most casual observer of the necessity for improving our financial facilities abroad and of strengthening our diplomatic and consular agencies.

I have emphasized the essentiality of fostering our incomparable home markets as the basis of all our prosperity and the natural foundation of a great foreign trade. If we are to build on such a foundation then our foreign trade policy should embrace:

1. A tariff based upon the recommendations of tariff experts to protect our home markets from the dumpings of Europe and Asia and also to secure reciprocal trade advantages with other countries.

2. Legislation supplementing the Webb-Pomerene law to promote efficiency in our home industries, by eliminating uneconomic and unessential features of the Sherman law.

3. The creation of an immigration board which shall regulate immigration to meet economic demands.

4. The development of a great American merchant marine, privately owned and privately operated, with such governmental assistance as is accorded the nationals of our maritime competitors.

5. The creation of a High Court of Equity which shall adjudicate commercial disputes between Americans and the nationals of countries in which they invest or seek to invest.